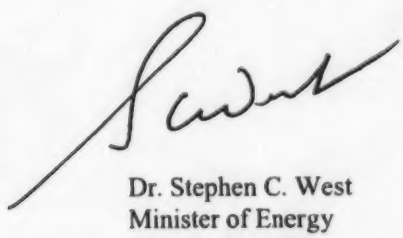
Energy

Business Plan 1998-99 to 2000-01

Accountability Statement

This Business Plan for the three years commencing April 1, 1998 was prepared under my direction in accordance with the Government Accountability Act and the government's accounting policies. All of the government's policy decisions as at January 20, 1998 with material economic or fiscal implications of which I am aware have been considered in preparing the Business Plan.

The Ministry's priorities outlined in the Business Plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this Business Plan.



Dr. Stephen C. West
Minister of Energy
January 21, 1998

Vision

The Ministry ensures development of Alberta's energy and mineral resources, and operation of energy utilities, occurs within a policy, administrative and regulatory framework that benefits both present and future Albertans.

Mission

To optimize the sustained contribution from Alberta's resources in the interests of Albertans.

Core Businesses

The Ministry is responsible for Alberta's oil, gas, oil sands, coal, and mineral resources, and energy utilities. It is composed of two organizations, the Department of Energy and the Alberta Energy and Utilities Board.

The Department's core businesses are Industry Development, Resource Stewardship and Revenue Management. The key responsibilities are to:

- Foster development, investment, trade and research in Alberta's energy and mineral resources.
- Manage the disposition of mineral rights.
- Forecast and collect revenue.

The Alberta Energy and Utilities Board's (EUB) core businesses are Adjudication and Regulation, Applications, Surveillance and Enforcement, and Information and Knowledge. The key responsibilities are to:

- Adjudicate and decide on matters relating to the development and transportation of energy resources, and utility rates.
- Ensure energy resource development is in the public interest.
- Ensure public safety and environmental protection through regulatory requirements, surveillance and enforcement.
- Ensure the availability of energy resource information to support responsible development.

Goals, Strategies and Performance Measures

1. Increase the overall efficiency of the electricity industry, maintaining the Alberta Advantage of low electricity prices.

- Introduce legislation and regulatory reforms which further the development of a competitive, deregulated market for electricity generation and streamline regulation of transmission and distribution.
- Prevent discriminatory practices in system access.
- Ensure that increased efficiencies in the electricity industry are reflected in the rates that Alberta customers pay for power.
- Phase-in the opportunity for customers to make their own pricing arrangements for their power purchases.

Performance Measures

- **Number of Power Pool Participants** - Target of 40% increase by 2001.

The growth in the number of power pool participants (generators, importers/exporters, and distributors) will indicate the success of implementing open, non-discriminatory access to Alberta's transmission grid for all electricity generators. There are currently 37 participants in the power pool.

- **Consumer and Stakeholder Satisfaction** - Target of 80% satisfied process is fair and effective.

An 80% satisfaction rate will provide an indication that consumers (industrial, commercial and residential) and utilities consider the deregulation process to be fair and effective. Surveys of consumer associations and utilities will be performed, after key implementation dates, and then periodically to monitor satisfaction on an ongoing basis.

2. Improve Ministry efficiency and effectiveness.

- Identify and implement opportunities to reduce costly overlap and duplication between the Department and Board, and to improve services to industry.
- Ensure that the Board's primary focus and priority is on hearings, due process and timely decision making.
- Evaluate alternative service delivery methods to improve efficiency.
- Accelerate a more structured and focused Ministry-wide regulatory review process.

Performance Measures

- **Service Commitments Met** - Target is 95%
- **Client Satisfaction** - Targets will be set after a base line is developed.

Reliability, responsiveness and consistency of key Department services are an important consideration to industry when formulating their development and capital investment plans. Monitoring

Department service levels and client satisfaction enables the Department to ensure services keep pace with changing requirements in the energy sector. This is an important dimension of maintaining an attractive investment environment for development of Alberta's resources. The key Department services are mineral rights posting requests, identification of restrictions, applications and agreements processing, and assessment of information filed. [See also EUB goals 6 to 9.]

3. Enhance Alberta's pipeline industry to provide access to the best markets.

- Resolve outstanding pipeline tolling issues, being sensitive to regional economic development in the gas sector, particularly in northern Alberta.
- Work with industry to encourage increased pipeline capacity out of the province.
- Promote joint ventures among competing interests to avoid infrastructure overbuild.
- Address pipeline jurisdiction issues to support orderly development of pipeline infrastructure.

Performance Measures

- **Pipeline Capacity Use and Basis Differential (Discount off US Market Prices)** - The target is to reduce the average discount to equal the value of transportation costs.

Recently the discount on Alberta gas prices relative to competing markets has significantly exceeded the cost of transportation to those markets. This is indicative of insufficient pipeline "take-away" capacity. Increased pipeline capacity would release trapped gas and increase the value of the natural gas resource, which extends to the value of royalties collected by the province. Ideally the average basis differential should equal the cost of transportation, indicating perfect market conditions. Monitoring capacity use and the basis differential allows the Ministry to assess improvements in the pipeline industry.

With respect to oil, the Ministry will also monitor the levels of apportionment. The application of new technologies and record levels of activity have resulted in increased oil production out of the Western Canadian Sedimentary Basin. Despite two major pipeline expansions in 1997 (Express and IPL SEP II) this increased production is outstripping our crude oil pipeline take-away capacity. The latter results in apportionment and decreased western producer and Crown netbacks. If unaddressed, it will eventually result in shut-in, scaled back exploration and development plans, and reduced Crown resource revenues.

- **Average Per Unit Cost of Gas Transportation** - The target is to maintain low transportation costs while expanding pipeline capacity.

As movement to a market-driven pipeline industry evolves and pipeline capacity is expanded, it is important to monitor the impact on average transportation costs. Transportation costs are shared by the Crown and producers, therefore it is in our best interests to minimize costs while ensuring adequate access.

4. Sustain growth opportunities in the energy and resource sector through the development of responses to environmental concerns.

- Provide proactive leadership on climate change at intergovernmental and intra-provincial levels.
- Participate in provincial and national environmental consensus seeking processes.
- Consolidate and disseminate information on the environmental performance of the energy sector to ensure that stakeholders and decision-makers are better informed.

Performance Measure

- **Voluntary Challenge Participation** - Target of 70% emissions covered by action plans by 2001

The Voluntary Challenge and Registry Program has been the central element of Canada's greenhouse gas reduction strategy. The Ministry actively encourages Alberta organizations to participate in the program. Although participation is not under the Ministry's control, this is important information for stakeholders and an indicator of the success of Ministry efforts.

5. Reduce the costs of developing Alberta's energy and mineral resources and strengthen the competitiveness of the energy sector through streamlined, effective government.

- Simplify royalty and tenure administration, and industry production reporting requirements.
- Stimulate research and development of new technologies that ensure resource development is economically and environmentally viable.
- Expedite development of more efficient government approval processes for access to the non-renewable resources.
- Secure Albertans' full and appropriate share from the development of their resources.

Performance Measures

- **Rate of Return Relative to Cost of Capital**

The rate of return for exploration and development of conventional oil and gas plays is an indicator of development costs and whether an appropriate share of bonus bids and royalties have been paid to Albertans for the resources. An excessive rate of return to industry means Albertans are not receiving their full share, whereas a low rate of return to industry will make investment in Alberta unattractive. The present fiscal regime allows returns to increase or decrease depending on market prices and the costs of production. A specific target would be arbitrary and meaningless, but monitoring and reporting of this will enable Albertans to assess the effectiveness of the Department's fiscal framework.

- **Ratio of Industry to Ministry Research Spending** - Target of 3:1 by 1998/99

The Ministry does not engage in research. As the steward of Albertans' resources, however, it is important that the Ministry support and encourage industry to undertake research that improves resource development. For projects where Ministry funds are provided, the ratio of industry to Ministry spending indicates the Ministry's effectiveness in promoting research.

EUB Goals, Strategies and Performance Measures

6. Provide fair, objective and efficient adjudication and regulation that encourages industry to conduct responsible resource and facility development, and that yields fair and reasonable utility rates.

- Ensure that regulatory requirements are necessary and effective.
- Focus regulatory processes on enhanced industry accountability for understanding and meeting or exceeding requirements.
- Develop alternatives to traditional forms of utility rate regulation.
- Address energy resource conservation issues to ensure optimum resource development.

Performance Measures

- **Stakeholder Confidence Index** - Target Under Development

Stakeholder confidence is an indicator of the EUB's effectiveness as a regulator. A survey of the EUB's public and industry stakeholders will measure levels of satisfaction with service and quality in a number of areas. The benchmark survey and development of indices is currently underway. Results will be available in the spring of 1998.

7. Ensure an effective and efficient application process.

- Streamline application processes and reduce information requirements where appropriate, and develop electronic application systems.
- Eliminate the need for applications where appropriate.
- Ensure that applicants fully understand and comply with requirements.

Performance Measures

- **Rate of Deficient Applications** - Target of 4% data deficiency for routine facility applications

The rate of deficient applications submitted to the EUB indicates the extent to which the EUB has clearly communicated its application information requirements to industry, and industry's level of understanding.

- **Application Turn-around Time** - Average of 2.5 calendar days for routine facility applications

Application turn-around time is an indicator of the EUB's efficiency of handling the application workload.

8. Maintain public safety, conservation of resources, and protection of the environment through effective surveillance and enforcement programs.

- Focus surveillance on high-risk operations, problem areas and companies with poor performance records.
- Articulate clear performance expectations and consequences of non-compliance with regulatory requirements.
- Enforce requirements firmly, fairly and consistently to improve company performance, where necessary, and to achieve lasting solutions.
- Develop audit programs which effectively assess compliance with regulatory requirements.

Performance Measures

- **Improvement Among Poorest Operators** - Target of over 60%.

Measures the effectiveness of surveillance and enforcement practices in achieving lasting improvements by operators with poor inspection records.

- **Percentage of Solution Gas Production Conserved** - Target of over 90%

Measures the effectiveness of regulatory requirements and industry practices in achieving an appropriate degree of conservation and environmental protection with respect to the flaring of solution gas.

9. Ensure useful and timely information is available to support the effective, efficient and sustainable development of energy resources.

- Ensure that information requirements meet regulatory and stakeholder needs.
- Obtain accurate and timely data submissions through electronic information exchange.
- Increase reliance on the private sector to market energy data.
- Evaluate resource and market appraisal activities and streamline where appropriate.

Performance Measures

- **Non-compliance in Submission of Required Data** - Target of under 5%

Non-compliance in submission of required data is an indicator of the effectiveness of surveillance and enforcement in the data collection areas, industry's awareness of the data required, and of the overall quality of the collective data base.

- **Regulatory data transacted electronically** - Target of over 65%

Indicates the efficiency of interaction with stakeholders in the EUB's data collection and dissemination function.

Financial Highlights

- Non-renewable resource revenues in 1998-99 (excluding the $256 million revenue cushion) are estimated to be $1.37 billion below forecast 1997-98 levels. This decrease is because oil and gas prices are expected to fall below the 1997-98 levels and rights sales are expected to return closer to historical averages from the record highs of 1997-98.

- Compared to the targets published in Budget '97, research spending will increase by $7.2 million in 1998-99, $7.0 million in 1999-2000, and $4.5 million in 2000-01 to support increased activity in energy related research. The funds for the increased spending will be drawn from the Alberta Oil Sands Technology and Research Authority Trust Fund's surplus.

- Beginning in 1998-99, the EUB will eliminate most application fees to reduce the administrative burden on the energy industry and to streamline internal processes. Administration fees (levy), collected annually, will be redesigned to include payment for most EUB services. The relative proportions of the EUB's revenue requirement are expected to remain at the current split with approximately 80 per cent paid by industry and 20 per cent paid by government.

Energy
Ministry Consolidated Income Statement
(thousands of dollars)

	Comparable 1996-97 Actual	Comparable 1997-98 Budget	Comparable 1997-98 Forecast	1998-99 Estimates	1999-2000 Target	2000-01 Target
REVENUE						
Internal Government Transfers	26,330	21,740	21,740	21,965	21,794	21,986
Other Taxes	116,544	106,000	118,000	101,000	111,000	113,000
Non-Renewable Resource Revenue	4,274,002	2,626,000	3,907,000	2,534,300	2,771,700	2,830,700
Premiums, Fees and Licences	42,829	40,199	45,772	43,081	42,942	43,530
Net Income from Commercial Operations	1,452	-	-	-	-	-
Other Revenue	28,882	14,360	13,030	9,055	9,055	8,555
Consolidation Adjustments	(27,782)	(21,740)	(21,740)	(21,965)	(21,794)	(21,986)
Consolidated Revenue	4,462,257	2,786,559	4,083,802	2,687,436	2,934,697	2,995,785
EXPENSE						
Program						
Departmental Support Services	15,797	14,989	16,344	14,919	15,721	16,127
Mineral Operations	16,121	21,072	19,409	21,378	21,378	21,378
Planning and Development	20,614	17,142	16,432	17,467	17,467	17,467
Energy and Utilities Regulation	12,830	13,540	13,540	13,765	13,594	13,786
Departmental Amortization	5,381	4,313	4,313	4,408	4,466	4,588
Approvals	11,611	11,600	11,590	12,655	12,715	12,873
Operations Compliance	12,693	14,600	14,221	15,186	15,381	15,678
Regulation Development	2,487	2,400	2,338	2,632	2,564	2,596
Regulatory Information Management	16,668	16,100	15,974	17,717	17,330	17,339
Energy and Utilities Board Support Services	8,367	8,300	8,571	9,314	9,434	9,448
Resource Appraisal and Demand Forecasting	4,914	4,914	5,065	5,467	5,537	5,607
Research	15,868	19,017	16,221	16,390	16,240	13,740
Consolidation Adjustments	(26,330)	(21,740)	(21,740)	(21,965)	(21,794)	(21,986)
Consolidated Expense	117,021	126,247	122,278	129,333	130,033	128,641
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-
Write Down of Capital Assets	(17,303)	-	-	-	-	-
NET OPERATING RESULT	4,327,933	2,660,312	3,961,524	2,558,103	2,804,664	2,867,144